

Marketing week 9- Creating new Businesses

Typical growth method- leveraging the business into new markets and products- business understands the situation and has programs to beat competition, enhance customer experience, upgrade products and leverage A&C's.

Another route- to bypass established boundaries set by existing business's that will create a new business with little or no competition in the first initial phase

Involves changing what the customer is buying → by creating a new market/submarket

TRANSFORMATIONAL INNOVATION → via the use of a completely unique/different strategy → long profits follow → leads to new growth platforms

Process innovation- creating efficiency and leverage

Product innovation- leads to market expansion

Value innovative questions for every company

- What should we do more/less of? What should we stop entirely? What should we do that's not offered traditionally in the industry;?

Two types on innovation Oceans

Blue ocean-

- *contains all business arenas that don't exist- unknown market space*
- essentially, a new strategy → hence has to be wired into the business culture etc
- Create demand for product/service that did not exist → making competition irrelevant
- New innovations that create a new business model
- More conceptual than physical
- Quality leap in value → otherwise not drivers for new business's
- Can achieve both low cost and differentiation in blue ocean
- Attractive financial return – ROI
- High risk-return
- E.G iPod product. eBay delivery

Red oceans-

- *established markets where boundaries and operating parameters are established*
- Beat competition
- Improve market share
- As red ocean gets crowded, products become commodities and low margins result
- Usually trade-off between differentiation and cost
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Key indicators

- *competitive climate-* the length of time in which there is little or no competition and the ability of competitors to become a factor when they do enter
- A truly new product/innovation usually results in no competition for a decade or so.
- How different is the strategy from before? – Market served/P&S's/VP/A&C's
- Correlation- industry newness/profitability

Barriers to LT success in existing product markets

- Competitors respond fast and strong
- Product advantage → SCA process is VERY Hard
- Incremental innovations can't be hidden → flat world → easily copied if not unique
- Dynamic market- easy to fall behind
- Economies of scale mistakes – price and margin pressures due to overcapacity problems

THE INNOVATORS ADVANTAGE

First mover advantage- innovator can/effect on competition

- Perceived as being innovative → provides energy and credibility for new products
- Competition inhibited from responding timely as it might cannibalize their business → Chrysler minivan/station wagon
- Furthermore, competitors cannot respond due to fear of taking eye of current business → especially if it's ALLG
- Competition can't respond- behind in technology/natural monopoly(cinema area)
- Responding to innovation might require changes in organizational values/culture/morals → impossible to do in short time and would ruin business as m\$\$/resources/training etc. required → Comp cannot copy this either
- Innovator can create customer loyalty → satisfied customer have no incentive to try something new (risk)
- Customer switching costs-LT commitments/network communities → can't steal eBay's community
- Not all survive- outdate technology/before it
- Innovators create customer loyalty and authenticity

Successful innovators/early market leaders show the following traits/characteristics

- Envision mass market-
- Managerial persistence- years of investment
- Financial commitment- continuous investment despite downfalls
- Relentless innovation-continuous innovation
- Asset leverage-hold dominant positions in related categories- shared economies/distribution exploitation

MANAGING CATEGORY PERCEPTIONS

Once innovation created → must manage the perception of the category as a new business will change what people are buying

Managing category perceptions-VP (associations and functional benefits) communication

CREATING NEW BUSINESS ARENAS

- Create a dramatically lower price point
- Technological innovation
- Get ideas on the table → refine → choose best one
- Time and resources are given to idea generation
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Customer in relation to the offering

- Hows our shit lacking? Unmet need? --> make new product/service/touch point that fulfills this need

LITTLE NOTABLES EXCLUSIVE – ALI THAIR

Technological innovation

- drives the perception of a submarket
- can take many forms → packaging/software innovation

Components to systems

- expand perceptions horizontally
- e.g CRM → email, loyalty, call centre etc) → firms want wider range all in one → convenience → tapped into unmet needs/new niche
- delivers more value and hence attracts more customers

Unmet Needs

- provide insight coz when its made into a product/service → be very relevant to the customer → NEW BIZ
- Makes other brands less relevant
- Anthropological research- good way to discover unmet needs → observational analysis

Niche Markets

- Market > niche (each having own dominant brand) .Power bar > low calorie > women > taste
- Unique position that appeals to distinct submarket- starbucks retail coffee experience
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Customer Trends

- Driver of a submarket
- Multiple trends better because competition will diffuse more
- Herbs/wellness → healthy refreshment beverages

Creating a low price point

- Blue ocean offerings- appear simpler and cheaper than established firms

Innovative theories'

Low end disruptive innovation

- Industry altered by emerging products with low prices
- Established firms target high spending customers → provide better features etc → leave opening for low end customers who want a simpler cheaper product that delivers satisfactory performance
- Entrants product is inferior appeals to limited customers → improve in time → become competitors in broad section of the market

New Market disruptive innovations aimed at non customers

- Many markets-customers don't buy coz the P&S's are too complex/\$expensive/inconvenient process
- easier offering that is priced right attracts these customers/opens the market
- Again, ignored by established firms who focus on heavy users
- Can serve both low end and non customer → Dell

Evaluation of a innovation

Hard to do in reality as its against the comfort zone and business culture/values etc

→ must ask the following questions

- Market real? Unmet need?
- Real product? satisfy the market?
- Competitive product? SCA?
- Company competitive? A&C's? MGT? culture?
- Profitable ? ROI?
- Strategic alignment?

Keeping the edge

- Maintain dominance- ultimate goal→ be a moving target.
- Success breeds competitors
- Apple-continuous innovation→moving target→ the authentic choice
- Strong SCA- management/improvement/reviews/VP/strategic improvements→ALWAYS NEW
- Entry barriers-

Factors that prevent new business creation

- Short term-when a biz is doing well
- Silo curse-delegation of innovation and funding to one unit→transformational innovation needs to be linked b/w different silos,more resources and be a threat to the existing profit stream
- Curse of success-why change if its allg? Should divert \$\$ to R&D →innovation cannot be starved \$\$\$
- Incumbent curse-
- Commitment curse- changing values/culture etc very hard/\$\$ etc
- Size of curse- big cant adapt to being small→core business is too huge→ mcdonalds

[slide shit that wasn't in readings]

A number of issues need to be considered in order to pinpoint current and future actions that will strengthen current customer loyalty, accelerate acquisition of customers from competitors and win increased share of new to market customers

In order to address the overriding issue ...

What actions and strategies will increase customer value thereby improving market and financial performance?

... companies need answers to three key questions

What should the company focus on to strengthen the loyalty of existing customers?

What should the company do to win customers from competitors?

What should the company do to increase share of new to market customers?

Published facts

- Companies delivering competitively superior value achieve higher levels of profitability
- Coz market/customer perceptions of value drive purchase behaviour
- +VE WOM increases since perceptions spread quickly
- Value studies show correlation→ customer perceived value and market share

What is value from a customers perspective?

- What I get for ,relative to what I can get somewhere else
- TF→ in order to increase market share→companies must deliver superior value for money
- I.e→Provide P&S's that are of higher perceived value then the competitors
- What I get? – understanding every customer touchpoint→ Product service waterfall
- What I pay- understanding both financial and non financial costs of being a customer- Cost price waterfall

LITTLE NOTABLES EXCLUSIVE – ALI THAIR

- Customer tree- understanding the complete value picture
- Each touchpoint has a customer need and priority→ opportunity for companies to add value at each point and differentiate from competitors
- EG. Knowledgeable staff/nice waiting environment/communication/access to all desirable information

Case study- Medical device Business- Singapore

Three priority areas to increase market share

Company Image and reputation

- Regular communication
- Increase activities that will enhance company image
- Free checking services
- Distribute newsletters

Lifetime warranty- to match competition

People and after service

- Train staff for support issues thoroughly
- Post sales activity
- Identify customer information needs→ Deliver and communicate it in a clear manner

All the above resulted in increased market share